

Message Text

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ACTION SS-15

INFO OCT-01 NEA-10 ISO-00 AID-05 SSO-00 L-03 EB-07 TRSE-00
NSC-05 SP-02 IGA-02 /050 W
-----041948Z 070431 /42
P 041335Z JAN 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC PRIORITY 222

C O N F I D E N T I A L CAIRO 0122

FOR: DEPUTY SECRETARY ROBINSON, ASSISTANT SECRETARY ATHERTON
AND ASSISTANT ADMINISTRATOR NOOTER

E.O. 11652: GDS
TAGS: EAID, E FIN EG
SUBJ: ASSISTANCE TO EGYPT, NEW INITIATIVES

REF: A. CAIRO 11950; (B. CAIRO 18019; C. CAIRO 00032

SUMMARY: AS REPORTED REFTELS, DURING JANUARY, ECONOMIC
MINISTRIES, FULL CABINET AND PEOPLES ASSEMBLY WILL BE DISCUSSING
DEGREE OF ECONOMIC REFORM TO BE UNDERTAKEN AND WHETHER AGREEMENT
WITH IMF POSSIBLE. BASED ON OUR DISCUSSIONS WITH IMF REPRESENTA-
TIVES AND ECONOMIC MINISTRIES, THERE REMAINS UNCERTAINTY IN OUR
MINDS WHETHER FULL CABINET AND PEOPLES' ASSEMBLY WILL BE PREPARED
TO ACCEPT DEGREE OF ECONOMIC REFORM THAT WILL PERMIT AGREEMENT
WITH IMF. OPPOSITION IS DUE TO CONCERN ABOUT IMMEDIATE POLITICAL
IMPLICATION OF CHANGING PRICES AND MINISTERIAL RESISTANCE TO
BUDGETARY AUSTERITY INHERENT IN MEANINGFUL REFORM PACKAGE.
PRIME MINISTER AND ECONOMIC MINISTERS HAVE STATED THEIR ABILITY
TO WIN SUFFICIENT SUPPORT FOR ECONOMIC REFORMS WOULD BE GREATLY
ENHANCED IF THEY COULD POINT TO CONCRETE PLEDGES OF ADDITIONAL
SUPPORT THAT WOULD BE FORTHCOMING, IF REFORMS WERE ADOPTED. SO
FAR THAT HAS NOT BEEN POSSIBLE. FOLLOWING MESSAGE PROVIDES BACK-
GROUND ON CURRENT SITUATION AND SUGGESTS POSSIBLE WAYS IN WHICH
U.S. MIGHT ENCOURAGE GOE AGREEMENT WITH IMF.

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1. AS REPORTED REFTELS, ECONOMIC MINISTRIES SEEKING SOFTEN
MAJOR ELEMENTS IMF REFORM PACKAGE AND UNCERTAINTY EXISTS AS TO
WHETHER FINAL AGREEMENT WILL BE REACHED WITH IMF. WHILE ECONOMIC
MINISTERS REITERATE THEIR UNDERSTANDING OF NEED FOR AND THEIR
DESIRE TO BRING ABOUT A REFORM PACKAGE, THEY ALL STATE THAT THEY
FACE STRONG PROBLEM IN PERSUADING REMAINDER OF CABINET AND

EVENTUALLY PEOPLES ASSEMBLY TO SWALLOW THIS HARD MEDICINE. THEIR EXPRESSED CONCERNS ARE (1) ADVERSE SHORT-TERM POLITICAL REACTION OF POPULATION TO INCREASED PRICES WOULD BE TOO GREAT AND, BECAUSE OF SENSITIVITIES OF FULL CABINET AND PEOPLES ASSEMBLY TO THIS, IT WILL NOT BE POSSIBLE TO GET FULL AND FINAL GOE APPROVAL OF REFORM PROGRAM; AND (2) THEY WILL BE UNABLE TO GET AGREEMENT BY FULL CABINET ON STANDBY AS CURRENTLY PROPOSED BECUASE OF OTHER MINISTERS' RESISTANCE TO BUDGETARY AUSTERITY INHERENT IN ECONOMIC REFORM.

2. AS DEPARTMENT AWARE, WE BELIEVE MEANINGFUL PROGRAM OF ECONOMIC REFORM, ALTHOUGH CERTAIN TO CAUSE SOME IMMEDIATE POLITICAL PRESSURES ON GOE, IS IMPORTANT PRECONDITION FOR LASTING IMPROVEMENT IN EGYPT'S B/P AND FOR EGYPT'S ECONOMIC DEVELOPMENT AND PROBABLY IS A REQUIREMENT FOR INCREASING (PERHAPS EVEN MAINTAINING) THE CURRENT INFLOW OF OTHER DONOR (PARTICULARLY ARAB) FINANCING. LACK OF PROGRESS BY GOE IN PUTTING ECONOMY IN ORDER AND RELATED ON AGAIN OFF AGAIN NATURE OF DISCUSSIONS WITH IMF OVER PAST YEAR HAVE PROBABLY CONTRIBUTED TO REDUCTION IN OTHER ARAB FINANCING (DOWN ABOUT \$1.5 BILLION BETWEEN 1975 AND 1976). FAILURE OF GOE AND IMF TO AGREE ON STANDBY NOW COULD, WE FEAR, HAVE PARTICULARLY NEGATIVE IMPACT ON ARAB DONORS IN IMMEDIATE FUTURE.

3. TIME FRAME FOR REACHING AGREEMENT THIS TIME AROUND IS AS FOLLOWS: KAISOUNI RETURNS FROM LONDON ON JANUARY 4. EFFORT WILL BE MADE BETWEEN THEN AND GUNTERS RETURN ON JANUARY 15 TO REACH FULL CABINET AGREEMENT ON FIRST YEAR'S PROGRAM. FOLLOWING THIS, DISCUSSIONS WILL BE HELD WITH GUNTER ON DETAILS OF OVERALL CONFIDENTIAL

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AGREEMENT WITH IFM FOR ACTIONS DURING NEXT THREE YEARS. PEOPLES ASSEMBLY DISCUSSION OF RELEVANT PORTIONS OF REFORM PROGRAM PRESUMABLY WILL TAKE PLACE AT END OF JANUARY.

4. GIVEN ABOVE, OBVIOUS QUESTION IS-- WHAT CAN WE DO TO INCREASE PROBABILITY OF GOE REACHING AGREEMENT WITH IMF? IF WE ARE TO DO ANYTHING IN THIS REGARD, IT WILL HAVE TO BE DURING JANUARY. WE BELIEVE ACTIONS OPEN TO US ARE (1) TO CONTINUE TO EMPHASIZE TO GOE OFFICIALS GREAT IMPORTANCE OF ECONOMIC REFORM FOR EGYPT'S OWN ECONOMIC DEVELOPMENT, FOR MEDIUM TERM STABILITY OF GOVERNMENT, AND AS ESSENTIAL REQUIREMENT FOR BOTH REDUCING B/P DEFICIT OVER NEXT FEW YEARS AND MAINTAINING CONTINUED DONOR FINANCIAL SUPPORT; AND (2) ADDITIONALLY, TO INDICATE OUR WILLINGNESS TO PROVIDE INCREASED FINANCING WITH SHORT-TERM IMPACT IF AGREEMENT IS REACHED WITH IMF.

5. WE BELIEVE THERE ARE FOUR POSSIBLE FORMS OF ADDITIONAL FINANCIAL ASSISTANCE THAT USG COULD REACH INTERNAL AGREEMENT ON IN TIME TO INFLUENCE GOE. THESE ARE: (A) AN INCREASE IN CIP

COMPONENT OF AID FINANCING IN FY 77 FRO \$250 MILLION TO \$350 OR \$400 MILLION. (WE ALREADY HAVE INDICATED TO GOE THAT A \$100 MILLION INCREASE IS POTENTIALLY POSSIBLE.WE MAY EVEN WISH TO ADVANCE TO \$400 MILLION AS A POTENTIAL LEVEL FOR U.S. CIP FINANCING. IN ANY EVENT, ANY INCREASE OVER CURRENTLY PROGRAMMED \$250 MILLION SHOULD BE FOR CONSUMABLES WITH QUICK B/P IMPACT.); (B) PROVISION OF AN ADDITIONAL 500,000 MT OF WHEAT WITH A CORRESPONDING (OR GREATER) REDUCTION IN THE UMR AND COMMERCIAL IMPORTS; (C) DEFERRING THE APPROXIMATELY \$20 MILLION PAYMENT DUE IN 1977 ON THE CONSOLIDATED DEBT THAT WAS RESCHEDULED IN 1971; AND (D) EXTENSION OF A SEVERAL HUNDRED MILLION DOLLAR CREDIT BY THE U.S.TREASURY TO THE EGYPTIAN TREASURY.

6. LAST OPTION WOULD OBVIOUSLY BE MORE DIFFICULT THAN FIRST THREE, BUT MAY BE POSSIBLE IN PRINCIPLE AND COULD HAVE MOST IMMEDIATE IMPACT ON GOE INTERNAL DEBATE. IF THIS OPTION POSSIBLE IN ACTUALITY AND WE DECIDE TO PURSUE IT, WE WOULD
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TENTATIVELY SUGGEST THAT CREDIT EITHER BE SAME MAGNITUDE (\$300 MILLION) AND BE ON SAME TERMS AS IMF STANDBY FINANCING, WITH DRAWDOWN LINKDED TO DRAWDOWN OF STANDBY CREDIT, OR THAT MAGNITUDE AND DRAWDOWN OF CREDIT BE LINKED TO REDUCTION IN THE PORTION OF THE HIGH-INTEREST/SHORT MATURITY COMMERCIAL DEBT OWED TO U.S. CREDITORS (SOME OF WHICH BEAR INTEREST OF 15 TO 20 PERCENT).

7. GOE AND IMF MAY COME TO SATISFACTORY AGREEMENT IN ABSENCE OF PLEDGE OF INCREASED U.S.S. SUPPORT. HOWEVER, POSSIBILITY EXISTS THAT THEY WILL NOT. THIS IS AN AREA OF SUFFICIENTLY GREAT IMPORTANCE THAT WE BELIEVE WE SHOULD CAREFULLY REVIEW POSSIBILITY OF REDUCING THE RISK OF NON-AGREEMENT. PROCEEDING WITHALL OF ABOVE WOULDENABLE US OFFER U.S.S SUPPORT PACKAGE WITH GREATLY INCREASED IMPACT DURING IMMEDIATE PERIOD THAT CUASES GOE MOST CONCERN. WE BELIEVE THIS COURSE OF ACTION WOULD SIGNIFICANTLY IMPROVE CHANCES FOR GOE REACHING AGREEMENT WITH IMF AND PROCEEDING WITH MEANINGFUL PROGRAM OF REFORM. AS EMPHASIZED ABOVE, TO AFFECT GOE DECISION, IT WOULD BE NECESSARY TO TELL GOVERNMENT DURING JANUARY WHAT ADDITIONAL SUPPORT WE ARE PREPARED TO OFFER. PLEASE ADVISE WASHINGTON REACTION BY PRIORITY CABLE.

8. SUGGESTIONS ABOVE RELATE SPECIFICALLY TO ACTIONS WHICH USG MIGHT UNDERTAKE. THIS COULD CLEARLY BE REINFORCED IF OTHER DONORS COULD BE SIMILARLY FORTHCOMING. EMBASSY/USAID RECOGNIZE SHORT TIME FRAME INVOLVED MAKES THIS EXTREMELY DIFFICULT, BUT BELIEVE ONE MORE CONCERTED EFFORT TO GET OTHER KEY ARAB AND OECD DONORS CURRENTLY ENGAGED IN EGYPT TO MAKE THE MOST FORTHCOMING POSSIBLE STATMENTS ABOUT THE IMPACT THAT AN IMF REFORM PACKAGE WOULD HAVE ON THEIR FUTURE AID PROGRAMS WOULD BE EXCEPTIONALLY HELPFUL AT THIS STAGE.

9. WASHINGTON MAY HAVE ADDITIONAL SUGGESTIONS TO MAKE IN
THIS REGARD. WE ALSO ASSUME YOU WILL BE DISCUSSING WITH GUNTER
HIS VIEWS ON HOW U.S. COULD BEST SUPPORT EFFORT TO INITIATE
MEANINGFUL PROGRAM OF ECONOMIC REFORM IN EGYPT.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, LOAN AGREEMENTS, DEVELOPMENT LOANS
Control Number: n/a
Copy: SINGLE
Sent Date: 04-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977CAIRO00122
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770003-0622
Format: TEL
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770183/aaaaculg.tel
Line Count: 181
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ffcfe4dd-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 CAIRO 11950, 77 CAIRO 18019, 77 CAIRO 32
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 21-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3669490
Secure: OPEN
Status: NATIVE
Subject: ASSISTANCE TO EGYPT, NEW INITIATIVES
TAGS: EAID, EFIN, EG, IMF
To: STATE
Type: TE
vdkgvwkey: odbs://SAS/SAS.dbo.SAS_Docs/ffcf4dd-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009